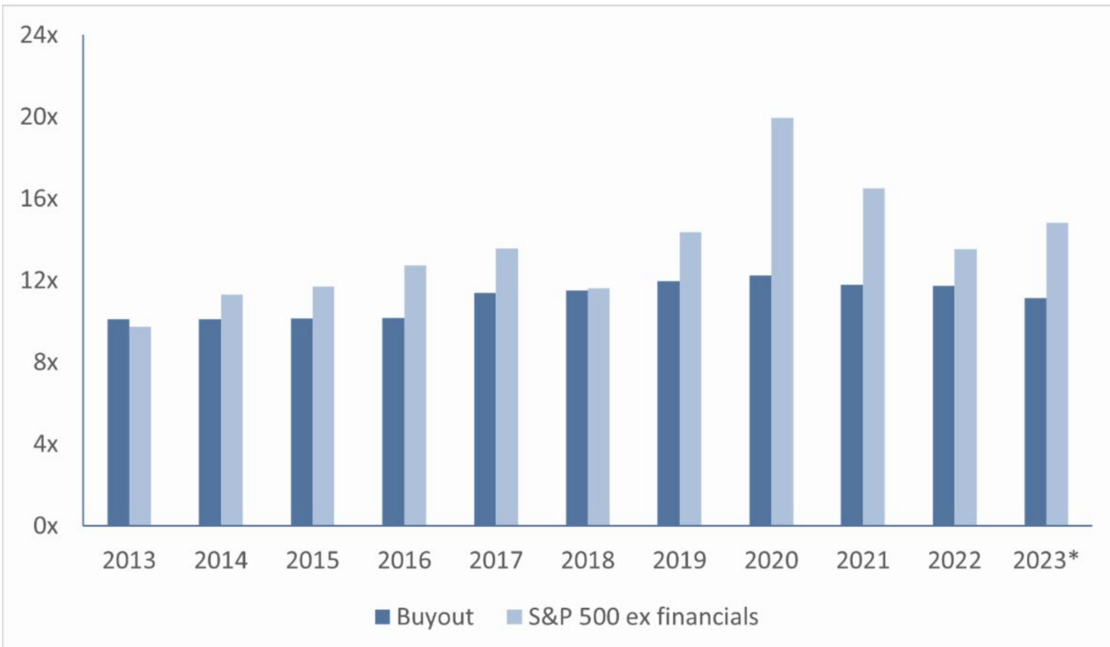
July 10, 2023

MARKET COMMENTARY

Fig. 1: Buyout multiples are tracking at a considerable discount to the S&P
EV/EBITDA multiples for buyout transactions



Source: Pitchbook Q2 2023 Quantitative Perspectives, Morningstar, Mill Creek; Geography: North America & Europe. Data as of 3/31/23.

In 2023, private equity markets have captured investors' attention for a couple of reasons:

1. **Exit activity has been limited**, resulting in fewer distributions to investors and exacerbating the denominator effect experienced in 2022.
2. **Rising debt costs are posing challenges** for companies with floating-rate borrowing costs and increasing equity requirements from sponsors.

These trends are evident across major data providers and intermediaries in the sector and present significant headwinds for existing private equity portfolios.

Despite these concerns, we believe the private equity industry as a whole remains healthy. Returns for most vintages have met or exceeded investor expectations, and there are ongoing innovations like continuation funds being introduced by managers and their advisors. In Fig. 1, overall purchase multiples remain at a reasonably healthy level and demonstrate a significant discount to public markets. While we will continue to closely monitor the evolution of exit markets for the rest of the year, we maintain an optimistic outlook for the industry, particularly for those who are comfortable with the illiquid nature of the sector and have access to the most skilled managers available.

This week's contributor: Andrew Murray

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